

HDFC AMC

ADD

CMP Rs2,358

Target 2,757

Upside 17%

Key highlights of Q2 FY21 performance

- ✓ **QAAUM and market share** – QAAUM was at Rs3,755bn flat on yoy basis but saw a 5% improvement qoq. Share of equity AUM declined by 400bps to 39%, whereas share of debt increased by 420bps to 32.3%. Overall market share dipped from 14.7% in Q2 FY20 and 14.5% in Q1 FY21 to 13.6% in Q2 FY21. In actively managed equity AUM, the market share dipped from 16.1% in Q2 FY20 and 14.5% in Q1 FY21 to 14.1% in Q2 FY21. For debt segment, market share improved from 12.8% in Q1 FY21 to 13.4%, yoy market share was flat. In liquid segment, the market share increased from 18.5% in Q2 FY20 to 18.7% in Q2 FY21, sequentially the share dropped by 290bps.
- ✓ **Revenue** – Management Fees was at Rs.4.5 bn was higher than our estimates of Rs. 4.4 bn. Management fees declined by 8% yoy and witnessed a growth of 11% on sequential basis.
- ✓ **Yield on Management fees** - The Yield on Management fees was 0.49%, which was an improvement of 4bps YoY, against our estimate of 47bps.
- ✓ **Operating Profit** -Operating profit came at Rs. 3.6bn which was higher than our estimates of Rs. 3.4bn on back of lower other expenses.
- ✓ **Profits** – PAT stood at Rs. 3.4bn v/s our estimates of Rs. 2.9 bn led by higher other income, partially offset by higher Tax expense. Other income was higher on the back of fair valuation of the said NCDs which raised other income for the quarter by Rs558mn.
- ✓ **Change in forecasts** – EPS for H1FY21 stands at Rs. 30, which is 53% of our estimate of Rs. 56.8 for FY21.

Q2 FY21 results tad better than estimates, fairly priced at FY23E P/E of 29x, Retain ADD

With improved equity markets, the equity AUM for AMCs has been rising sequentially. We expect the trend to sustain over the medium term. HDFC AMC is focusing on improving its fund performance and is implementing measures such as hiring of new FMs, new product launches and changing investment strategy of schemes. Debt inflows should increase in line with improvement in FCF generation for India Inc. With tight cost controls, profitability will continue to improve for HDFC AMC. We find the valuations fair at FY23E P/E of 29x and retain our target price of Rs2,757.

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
AAUM	3,728,590	3,736,294	4,195,090	4,760,850
YoY Growth	15.6%	0.2%	12.3%	13.5%
Net Revenue	20,033	17,571	21,052	24,662
YoY Growth	4.6%	-12.3%	19.8%	17.1%
Operating Profit	15,722	13,702	16,804	20,073
YoY Growth	30.4%	-12.9%	22.6%	19.4%
PAT	12,624	12,358	14,407	17,000
YoY Growth	35.7%	-2.1%	16.6%	18.0%
ROE	35.5%	28.9%	30.6%	33.6%
EPS	59.2	58.1	67.8	80.0
P/E	39.5	40.3	34.6	29.3
BV	189.5	212.6	229.5	245.5
P/BV	12.4	11.0	10.2	9.5

Source: Company, YES Sec – Research

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MANAGEMENT COMMENTARY

- ✓ **Equity** – fall in market share, partly due to weak performance, 2007 and 2013 had seen similar trends in terms of performance, diversification of style of investment, two new fund managers hired with different investment styles, funds with similar styles will be modified over the next couple of quarters, over the medium term expects to improve performance, working on commonality of stock holdings across schemes, may look at hiring more people in the team, robust pipeline of new product launches, 1 every two months, thematic as well as fill product gaps, expect recovery in SIP investments, flows do not move the needle with regards to AUM
- ✓ **Distributors** - Committed to long term relationships with distributors, deliver customer experience is a preference than paying out more to distributors, increased payouts for certain products for the festive season, launching new products to keep top of the mind position amongst distributors
- ✓ **Direct equity** – No of demat and trading accounts increased, however majority of the people need to be invested in diversified products where MFs will play a larger role
- ✓ **Debt** – impact of credit funds has reduced and hence regained market share
- ✓ **Liquid** – Liquid market share drop on a high base, dominant position and by far the largest
- ✓ **ETFs** – Majority of money in Nifty or Sensex ETF, Large portion is from EPFO, not found acceptance amongst retail customers, under penetrated population, distributor is the key driver – does not have incentive to sell ETFs, Gold ETF, Banking ETF, Sensex and Nifty ETF already exists with HDFC AMC, ETFs do not exist on any other indices, customers want absolute returns rather than relative returns to the index, customers interested in investing in midcap and small cap have no options in ETFs or index funds hence have to come to MFs
- ✓ **Revenue yields** – decline is because of product mix, some fall in debt margin as share of high margin credit risk funds have declined sharply, fall in yield because of the increase in size of AUM is a good problem to have as expenses do not rise in the same proportion leading to better profit growth
- ✓ **0.1% TCS** – AMFI has made representation to not charge the same
- ✓ **Cost cutting** – rent 38 branches renegotiated rents (negotiations for more branches likely), will retain the position of lowest cost AMC in the industry
- ✓ **Succession** - The process to hire the successor is on. Confident that the existing team will continue to deliver.

Exhibit 2: Result Table

Rs Mn	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ	Q2FY21E
Revenue	4,563	4,980	-8%	4,115	11%	4,424
As % of QAUM	0.49%	0.53%	-4bps	0.46%	2bps	0.47%
Fees & Commission	13	8	55%	14	-6%	12
As % of revenues	1.1%	0.7%	47bps	1.3%	-20bps	1.1%
Employee Costs	535	578	-8%	526	2%	532
As % of revenues	11.7%	11.6%	10bps	12.8%	-107bps	12.0%
Other Expenses	360	481	-25%	410	-12%	427
As % of revenues	7.9%	9.7%	-178bps	10.0%	-208bps	9.7%
Total Expenses	907	1,068	-15%	950	-5%	971
Operating Profit	3,655	3,912	-7%	3,165	15%	3,453
As % of QAUM	0.39%	0.42%	-3bps	0.36%	3bps	0.36%
As % of revenues	80.1%	78.6%	156bps	76.9%	320bps	78.0%
Other Income	1,137	511	123%	798	42%	570
Finance Cost	22	23	-3%	22	0%	22
Depreciation	141	125	13%	137	2%	142
Profit before Tax	4,630	4,275	8%	3,804	22%	3,858
Tax Expense	1,249	593	111%	780	60%	926
Tax Rate	27%	14%		21%		24%
Profit After Tax	3,381	3,682	-8%	3,024	12%	2,932
As % of QAUM	0.36%	0.39%	-3bps	0.34%	2bps	0.31%
As % of revenues	74.1%	73.9%	15bps	73.5%	62bps	66.3%

Source: Company, YES Sec – Research

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